Analysis to the Development of the Chinese OEM Enterprise

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Abstract: The Chinese Enterprise entered in the transnational enterprise and the supply chain by the way of OEM (original equipment manufacture), the things made in China like the electric appliance, clothes, toy, the productions have occupied the important share in the global market, but this is still insufficient to cause the Chinese enterprise to enter the transnational enterprise's ranks, because the Comparative Advantage of china is relatively weak, the enterprise lacks the research and development ability and technological innovation ability, the Chinese Enterprise can only be in the low end link in the supply chain, the main profit gains by the transnational enterprise, OEM enterprise development and sustainable development of the national economy has been largely restricted. Under the influence of macroscopical factors and internal microcosmic factors, the government and the generation of labor enterprise need to adopt the corresponding strategy to be able to realize the transition from the simple OEM to the manufacturing of the independent brand and the independent innovation own brand to achieve the development of local enterprises.

Keywords: Original equipment manufacturers, Own brand manufacture, Supply Chain

1 Introduction

The first half of the year in 2010, Foxconn, the company in Shenzhen, China. There were several employees jump from a building, not only caused great concern of the whole society, but also aroused the concern of academics. As a global 3C (computer, communications, consumer electronics) the largest foundry in the field, the fastest growing and highest rated international group, Foxconn provides OEM products for several Global electronic giants.

OEM refers that the OEM enterprises product products in the request or under the guidance of commission, by OEM production, SMEs could learn from world advanced enterprises in R&D capabilities, brand management capabilities and structure of the system to effectively mimic the upgrade, it can develop SMEs in the high-end extension to the product division's dynamic ability. Lufeng (2004) defined the name of OEM, the brands in developed countries will place orders with the foreign manufacturer according to certain design requirements, the foreign manufacturer produces voluntarily according to the design requirements of the production, or decomposes the production process into the different link, sublets for the different enterprise, after the manufacture of a product, the productions were affixed with the brand. Huangyan (2003) proposed in its research that OEM has provided the development opportunity for many small and medium-sized enterprises, they can learn advanced technology and the management pattern from the production process for the International brand tycoon, completes the accumulation process which is necessary for an enterprise to grow. Konglingcheng (2005) find out through the research that progresses unceasingly along with the technology and the modern expense idea changes unceasingly, the product life cycle unceasingly is also reducing, the way of technology transfer possibly develops in product life cycle at any stage from shift the advanced and sophisticated technologies, it provide the theory support for the Chinese OEM enterprises to make “Technology imitation” and “technological leapfrogging”.

The existing research believed that the pattern of OEM mainly has OEM (original equipment manufacture) and ODM (primitive design and manufacture), what the two differences mainly lies in ODM refers that the OEM enterprises not only undertake manufacture but also carry on the deep processing assembly and the product designing. In this mode, the trustee still had the brand, the OEM enterprises make gradually to the product innovation, but will not develop new product, and therefore it
has not changed the nature of high-level OEM manufacturing. YuMingchao (2008) proposed another different viewpoint “the OEM trap hypothesis”, he thought that excessive OEM will cause the Chinese enterprise to pause in the bottom end of the value chain, and will weaken its frail superiority unceasingly. zhengwensheng (2005) having analyzed the phenomenon of shrinking profit margins appear in electronics industry in Taiwan, he pointed out that if the OEM enterprise wants to obtain the survival development, the key is to promote innovation ability, develops the independent brand, strengthen their overall competitiveness. Wangjianping (2006) pointed out that the home manufacture enterprise participates in OEM can make the difference to development of the economy, but the production is at the end of the Industry Chain, effect on the local optimization of industrial structure is not obvious, on the contrary, it is easier to cause the danger of the industry proportional relationship unbalanced and Industry marginalized. It can be seen from the results of these studies that OEM business is the member at the end of the supply chain, its core competitiveness does not lie in production technology and the management, the OEM enterprise does not have the advanced technology and the management idea, but they need to study and to grasp advanced enterprise's experience through the way of OEM.

2 Pattern Analysis of Chinese OEM Enterprise

China can become the Industrial workshop of the world; a primary reason is China has the massive cheap labors while the price of labors power in developed country is very high. It is cheaper to assemble in home than to sell to other countries after transports the spare part to China and assembled. From the cost of supply chain aspect, in the fast changing needs of individual economic environment, the market is getting more and more competitive, any global big enterprise that reduce cost will have the cheaper production than competitor’s product, it will be easier to occupy the market. From the Global economic environment aspect, there is no obvious difference in the cost of material and the profits of product selling in every enterprise, as a third source of profits in the enterprise supply chain, logistics are also essential to improve to the perfection, no more to be tapped. Thus, OEM Enterprise becomes the source of cost savings and increase profits for core enterprise in the supply chain, at the same time, the core enterprise jobbed out non-core businesses particularly non-technical business to OEM enterprise in order to Concentrates the limited energy in own core business. Therefore, OEM companies are concentrated in the economically less developed countries, particularly the abundant labor resources and low labor cost countries.

Research in recent years, some scholars put forward the views of OBM, Which has a capacity for independent innovation and independent brands of own-brand manufacturing, relative to the simple design of OEM and simple level of ODM, The OBM enterprise not only carry on the depth processing assembly and product design, but also develops own brand. In the OBM model, on one hand, The enterprise has the formidable research ability and development ability at the same time, on the other hand also has take the brand and the channel as symbol formidable marketing ability. The enterprise can participate in the international competition positively on each link of value chain. The mainly modes of Chinese OEM enterprise are OEM and ODM: Simple original design manufacturing, or simply the depth extent of OEM, lack of independent brand innovation, only produces for core enterprise simply, can not convert to the OBM model. Analyzes its reason, mainly has macroscopic and the microscopic 2 aspects.

2.1 Macro constraints
The development of the supply chain from the vast majority of the actual situation, A company in a supply chain is usually not what the status of R&D capabilities from a single enterprise decisions, more influencing factors from the strength of entire country (region) in a global economy: Supply chain links between regions in the country or how to allocate the space decided by the comparative advantage of the country. The firms in developing countries are often at the end of the supply chain, enterprises in
developing countries during the initial stage of development can only cut into the supply chain by the way of production. One important reason is, the developing countries relative to developed countries have the most abundant labor resources, and extremely low labor costs, this advantage is more obvious in China. We have liberated the large number of rural surplus labor along with the urbanization reform and the countryside land reform. Productivity released has provided the huge available labor force for the labour intensive enterprise, when multinational corporations for the purpose of reducing costs began to seek low-cost manufacturing base, the huge advantage of natural labor provides the possibility for linking up with the Multinational Corporation and global economy for the domestic enterprise. Therefore, Most Chinese companies take the way of OEM production for the transnational enterprise in order to quickly enter the supply chain of multinational companies into the global economic market.

The Chinese Enterprise is at the inferiority position in the aspect of R&D, design, marketing, technical requirements, capabilities, capital and core competitiveness which the multinational companies attach great importance to, therefore, in the initial stage of development in the enterprise, multinational companies carry out the design, development, marketing, and high value-added activities while domestic enterprises can only undertake processing, manufacturing and assembling. Some foundries can upgrade to have some knowledge of content involved in the design of activities (ODM) as the continuous improvement of production technology and the unceasingly rich of the product knowledge, however, this upgrade can only regard as a quantity improvement, not the change of the nature. Another point of view of macro, OEM does not need the precise and advanced knowledge ability, also does not require too much technical input, the company can create considerable benefits in a very short period of time only need to invest the factory and the machinery equipment. It has a direct effect on GDP growth and export, tax revenue increasing, the solution to the labor employment, this effect was reflected more clearly on big countries like China and low-income countries. Therefore, the local governments tend to consider their own interests, they prefer to put forward various preferential policies to encourage and support OEM enterprise rather than promote low-tech enterprises to have industrial upgrading if they don’t have enough power. It strengthened the local companies’ inertia in OEM manufacturing to a certain degree, the mode of production that based on labor-intensive rather than technology-intensive has been further enhanced.

2. 2 Micro constraints
The microscopic limit mainly comes from the enterprises, including core enterprise and the OEM enterprise.

From the perspective of multinational companies, quite part of transnational enterprises requires all OEM enterprises completely established in full accordance with their formulation technique of production and the standard of the production to ensure that all product quality is consistent and there is no difference between the factories. Some enterprises can tolerate and even support and encourage foundries to improve technological process and the ability of product designing to a certain degree, Also allows OEM companies to establish their own brand on the peripheral low technique content equipment; Upgrade to the ODM, to meet their access to low cost, high demand for personalized products. But, if the OEM enterprise turned in the same direction with the R&D Capability, marketing capability of multinational which are likely to challenge the multinational, the multinational will use all means to stop and prevent this process, On the one hand cut off the process, on the other hand, find ways to reduce its own R&D passion, finally forced the foundry business lost the ability to master core technologies and to develop own-brand market power. Most multinational companies control the materials procurement and the purchasing price of products in order to better control the supply chain members, especially take control of the means of seizing petty gains[8], the multinational company keep the profit in small range, the OEM enterprise have to ask OEM for more profits. This makes the foundry had to be limited to the vicious cycle of OEM--- meager profit---OEM, this led to the ultimate loss of capacity for independent innovation, or even to reduce the number of OEM products, reduce the profit margins till threatened with a foundry agreement.
From the point of view of the enterprises themselves, the Chinese foundries generally lack R&D and marketing capabilities, the reason is: first, the OEM enterprise has always been engaged in a simple OEM, all the technical standards, production technology designed by the core enterprise, what the OEM enterprise need to do is to recruiting skilled workers to do business in accordance with the requirements of core enterprise, or even just need to recruit enough workers. The OEM enterprise doesn’t have self-owned brand, they don’t need to spend money on researching and developing, and finally, the OEM enterprise cannot bring challenge to the multinationals without any technical ability; Second, OEM enterprises have their own limitations, they lack the channels to popularize their products abroad, these channels are usually held by multinational corporations. In addition, the OEM enterprise lacks the high-level managerial talent, learning capability and R&D and marketing channels in developing expertise, It can not make up the difference between local enterprises and multinationals.

3 The Strategy to Develop From OEM to Own Brand Business Enterprise

We can see from the analysis above, If the local companies still follow the simple OEM or ODM production model, then, once the most fundamental factor --- a change in the labor factor, the prospect of foundry business will become very uncertain, therefore, the OEM enterprise can survive in the intense market competition by the way of transforming to the independent brand. The enterprise needs macroscopic and the microscopic two aspects to achieve this goal.

3.1 Macro Strategy

At the macro level, it can’t achieve change by relying on the strength of the enterprises themselves, and therefore, they need the safeguard highly from the national strategy.

(1)Changes in national policy environment. Government, especially local government should look further ahead; they can’t neglect the enterprises on independent R&D and innovation support for the reason that the OEM companies to bring direct economic benefits. Although the cycle of independent R&D and innovation may be relatively long, but in future development, one or a few foundries can not match with the economic value and the social value which will bring for the core enterprise has its own brand. Therefore, The government should create an enabling environment for technology innovation, encourage enterprises to carry out its own brand of R&D, enhance technological capability and research and development capabilities while strengthening basic education and vocational education to improve the educational level of workers, encourage enterprises to cooperate with research institutions and Institutions of higher learning. This not only provides businesses with the theoretical basis for research and development, but also provide the opportunity to put the theory into practical experience for research institutes and institutions of higher learning.

(2) Changes in market environment. Although the products were sold to the international market, but the enterprise don’t have the brands. The OEM enterprises don’t have enough money to research and develop new technologies as the OEM margins are too small. Therefore, the country must provide the advantageous domestic market environment for the enterprise. The Chinese market is an extremely huge market, but the construction of economic infrastructure is still relatively backward, the social security system is not completed. Thus the domestic market is also insufficient to support the development of enterprise completely, and local governments, local protectionism and administrative monopolies also limited the development of enterprises. The government must provide the good domestic market to help the development of the native place enterprise, accumulates enough strength to move toward the internationalization market, the government must raise the service consciousness at the same time to promote the related profession association's cultivation and the consummation, provides the effective information service for the enterprise to realize the transformation from OEM manufacturing to the independent innovation, especially the information service on the profession trend of development, domestic and the condition of foreign similar products market in order to carry on the decision-making for the enterprise to provide the help to reduces enterprise's decision error.
3.2 Micro Strategy
Changes in the macroeconomic environment does not mean that local enterprises can be completely free from simple processing to enhance the level of independent brands, but also needed enterprise oneself to embark from the reality carries on the effective transformation.
Changes in the concept of enterprise itself. Enterprises must establish its own brand from OEM production to the production of strategic goals, enhance independent innovation capability, and actively enhance the marketing capabilities to enhance their core competitiveness. They have to learn the differences between the independent brand innovation and the OEM production from the strategic view of development. The enterprises also need to increase R&D investment and the introduction of high-quality talent, the enterprise co-operation with institutions of higher learning and training institutions at the same time to promote the independent innovation. The OEM enterprise should learn the management of multinational corporations and concepts as much as possible to enhance the management level of enterprises themselves and the business value of their own brands.
Strategies of enterprises to enhance. One strategy is to separate business, let's take Asustek and Acer as an example, both had been in the field of OEM, but now, they already had the noticeable independent brand market share in the IT domain while they also still in the OEM production for other enterprises. They completely separated OEM and own brand business. The separation of OEM and the independent brand cause the transnational enterprise not to concentrate the main energy in independent brand innovation. The second strategy is to promote progressively. First, gradually accumulated technology and marketing experience by selling own brand products in the domestic market, the enterprise can promote the products to the countries around after the domestic market operation is quite mature and gradually gained international experience in marketing and market reaction. The enterprise can compete with the multinational companies when it has its own core competence.

4 Conclusion
China is in a period of rapid economic development. Many multinational companies set up manufacturing enterprises in China for it has large surplus of social workers. But there is very few Chinese own brand products in the international market. It cannot promote the national manufacturing capacity and research and development ability simply rely on OEM manufacturing, also cannot cause the economy to continue the steady progress. Once the labor force changes, such as labor costs, the multinational corporations will shift the OEM to a lower cost developing country without hesitation. Therefore, Chinese foundry enterprises must effectively reflect on the vision for the development of enterprises, from simple OEM and ODM to a higher level, more competitive brand of independent R&D, design, manufacturing. We should create our own brand.

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